



June 8, 2009

Town Board of Trustees
Town of Frederick
401 Locust Street
Frederick, Colorado 80530

In planning and performing our audit of the financial statements of the Town of Frederick (the "Town") as of and for the year ended December 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

We noted other matters involving the internal control and its operation that are as follows:

Vendor File Maintenance

During our review of vendor files and cash disbursements records we noted that the Town's list of vendors in the accounting system includes many vendors which are old and are no longer used. Also, the Town does not have a formal policy of periodically reviewing and updating the vendor listing. We recommend that the vendor listing be reviewed by management on an annual or semi-annual basis to ensure that only current vendors are maintained in the system and inactive vendors be eliminated or deactivated.



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Fraud Prevention Program

As part of the Town's fraud prevention program the Board of Directors should consider implementing a "whistleblower policy" or a similar policy to facilitate anonymous reporting by employees of suspicious activities possibly indicating fraud or improprieties.

Void Checks

During our review of voided checks we noted that there were some voided checks missing and not all voided checks had the signature block removed. All voided checks should be retained and the signature block removed to prevent any possibility of those checks being presented for payment.

This communication is intended solely for the information and use of management, the Board of Trustees, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Watkins & Schommer, Inc.

Watkins & Schommer, Inc.
Certified Public Accountants